

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature <i>Abraham & Gellray, P.C.</i> <i>Alan M. Stone</i>			Date	

**City of Ionia
Dial-A-Ride Transit Fund
FINANCIAL STATEMENTS
June 30, 2004**

City of Ionia
DIAL-A-RIDE TRANSIT FUND

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ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and
Members of the City Council
City of Ionia
Ionia, Michigan

We have audited the accompanying financial statements of the Dial-A-Ride Transit Fund of the City of Ionia, Michigan, as of and for the years ended June 30, 2004 and 2003, as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

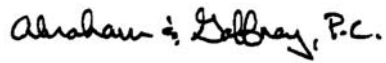
As discussed in Note A, the financial statements present only the Dial-A-Ride Transit Fund and do not purport to, and do not, present fairly the financial position of the City of Ionia, Michigan, as of June 30, 2004 and 2003, and the results of its operations, and cash flows of its proprietary fund types for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Dial-A-Ride Transit Fund of the City of Ionia, Michigan, as of June 30, 2004 and 2003, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 24, 2004, on our consideration of the City of Ionia's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

The Management's Discussion and Analysis on pages iii through ix is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Dial-A-Ride Transit Fund of the City of Ionia, Michigan, financial statements. The accompanying additional information listed in the Table of Contents under Other Supplementary Information is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Dial-A-Ride Transit Fund of the City of Ionia, Michigan. Such information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the Dial-A-Ride Transit Fund of the City of Ionia, Michigan, financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Abraham & Gaffney, P.C." in a cursive, slightly stylized font.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 24, 2004

CITY OF IONIA DIAL-A-RIDE

MANAGEMENT DISCUSSION AND ANALYSIS

The intent of the management discussion and analysis is to provide highlights of the Agency's financial activities for the Fiscal Year ended June 30, 2004. Readers are encouraged to read this section in conjunction with the transmittal letter and the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- ❖ **ASSETS** - The assets of the Dial-A-Ride did exceed its liabilities by \$ 1,260,264 (net assets). Of this amount, \$166,422 (unrestricted net assets) may be used to meet the Dial-A-Ride's ongoing obligations to citizens and creditors. The total net assets did increase by \$322,725. The increase was from Federal/State capital grants that provided for completion of a building expansion and remodel as well as a communication tower.
- ❖ **Unreserved Fund Balance:** At the end of the current fiscal year, unreserved fund balance for Dial-A-Ride was \$166,422, or 22.3% of total operating expenses. This is down from \$200,388, which was 25.7% of last year's operating expenses. This reduction can be attributed to adjustments of State Operating Assistance for FY 2004 and prior year state and federal reconciliation.
- ❖ **Ridership:** Demand response revenue (fare box) increased this year by \$7,570, while School tripper service earned \$12,472 less. The miles traveled, 155,780, were 9,155 miles less than the preceding year. Upon analyzing this information it was identified that an increase in demand response fares during the fiscal year reflected the increase in total fare amounts, while school runs were streamlined thus decreasing school tripper service revenues. Miles traveled were less than last year due to streamlined school tripper service and computerized dispatch efficiencies.
- ❖ **Federal & State Funding Projects**
Capital Projects: The Ionia Dial-A-Ride is eligible for grants through the MI Department of Transportation and the U.S. Department of Transportation. During the fiscal year ending 6/30/04, Dial-A-Ride secured funding for; 1) a communication system including *320 ft tower* - total cost of \$373,797; and 2) a 2004, 18 passenger bus - total cost of \$43,447. The third project, an ongoing building renovation with a total cost of \$296,960 was started prior to June 30, 2004.

Job Access Project: The Dial-A-Ride also secured Federal and State grants for the Jobs Access and Reverse Commute program that started in 2001. Ionia Dial-A-Ride and Belding Dial-A-Ride work together to offer job related transportation services between the City of Belding and the City of Ionia. The grant award for running this program for fye 6/30/2004 was \$60,863.
- ❖ **Investment Income:** Due to the reduced interest rates available the interest revenue was only \$1,466 compared to \$3,280 from the previous fiscal year.

CITY OF IONIA DIAL-A-RIDE

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report includes this management discussion and analysis report, the independent auditor's report and the basic financial statement of the Dial-A-Ride, which include notes that explain in more detail some of the information in the financial statements.

As a municipal transportation authority, Ionia Area Dial-A-Ride engages in primarily enterprise operations in various separate and distinct activities. These activities range from: 1) demand service for transporting commuters, 2) contracted tripper service for school routes in the Ionia Public School District, to 3) inter-county service for state funded programs.

REQUIRED FINANCIAL STATEMENTS

The financial statements report information of the Dial-A-Ride (DAR) using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Assets includes all of the DAR's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to DAR creditors (liabilities). It also provides the basis for evaluating the capital structure of the DAR and assessing the liquidity and financial flexibility of the DAR.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measure the success of the DAR's operations over the past year and can be used to determine whether the DAR has successfully recovered all of its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

FINANCIAL ANALYSIS OF THE DAR

The Statement of Net Assets and the Statement of Activities provide the information to determine how the DAR did financially during 2003-2004. The net assets, or the difference between assets and liabilities, and the changes in them can indicate whether financial health is improving or deteriorating overtime. However, other non-financial factors such as changes in economic conditions, service area and new or changed government legislation also need to be considered in determining the DAR financial health.

NET ASSETS

The DAR's Statement of Net Assets is presented in the following Tables. A comparative analysis of data is presented to the fiscal year of 2002-2003.

CITY OF IONIA DIAL-A-RIDE
MANAGEMENT DISCUSSION AND ANALYSIS

TABLE 1
Condensed Statement of Net Assets

	<u>6/30/2004</u>	<u>6/30/2003</u>
Current and Other Assets	\$ 262,791	\$ 299,310
Capital Assets	<u>1,093,842</u>	<u>737,151</u>
 Total Assets	 1,356,633	 1,036,461
 Current Liabilities	 49,208	 40,006
Other Liabilities	<u>47,161</u>	<u>58,916</u>
 Total Liabilities	 <u>96,369</u>	 <u>98,922</u>
 Invested in Capital Assets		
Net of Related debt	1,093,842	737,151
- Restricted		
- Unrestricted	<u>166,422</u>	<u>200,388</u>
 Total Net Assets	 <u>\$ 1,260,264</u>	 <u>\$ 937,539</u>

TABLE 2
CONDENSED STATEMENTS OF REVENUE, EXPENSES,
AND CHANGES IN NET ASSETS

	<u>2003-2004</u>	<u>2002-2003</u>
Operating Revenues	\$ 97,197	\$ 102,099
Non-operating Revenues	<u>446,690</u>	<u>461,950</u>
 Total Revenues	 543,887	 564,049
 Depreciation Expense	 167,912	 167,335
Other Operating Expense	516,990	525,159
Non-operating Expense	<u>60,863</u>	<u>90,264</u>
 Total Expenses	 <u>745,765</u>	 <u>782,758</u>
 Income (Loss) Before Capital Contributions	 (201,878)	 (218,709)
Capital Contributions	<u>524,603</u>	<u>122,169</u>
 Changes in Net Assets	 322,725	 (96,540)
 Beginning Net Assets	 <u>937,539</u>	 <u>1,034,079</u>
 Ending Net Assets	 <u>\$ 1,260,264</u>	 <u>\$ 937,539</u>

CITY OF IONIA DIAL-A-RIDE

MANAGEMENT DISCUSSION AND ANALYSIS

While the Statement of Net Assets shows the change in financial position of net assets, the Statement of Revenues, Expenses and Changes in Net Assets shows that the operations actually had a loss before Capital Contributions. Depreciation expense, of \$167,912 is a non-cash expense, which represents the reduction in the value of the facility and busses. Due to the nature of the Dial-A-Ride's capital improvement plan, this cost is not considered in the budget process because of the capital grants available through State and Federal funding (see Table 3).

The DAR's operating revenues were slightly less than last year. Operating Expenses were less by \$36,993 from the previous year, due in part to reductions in service hours on Saturdays, and reductions in state operating assistance programs for Specialized Services. Ionia Dial-A-Ride maintains the fares that were increased on July 1, 2003.

BUDGETARY HIGHLIGHTS

The Dial-A-Ride is an enterprise fund of the City of Ionia and is therefore not required to adopt an annual budget. However, the City Council does adopt an annual Operating Budget and a five-year Capital Plan for the Dial-A-Ride following a public hearing. The Operating Budget includes proposed expenses and the means of financing them. The DAR's operating budget remains in effect and can be revised with City Council approval prior to the June 30, year end.

A 2003-2004 budget comparison and analysis is presented in TABLE 3.

CITY OF IONIA DIAL-A-RIDE
MANAGEMENT DISCUSSION AND ANALYSIS

TABLE 3
BUDGET vs. ACTUAL

	BUDGETED		ACTUAL	Variance Favorable (Unfavorable)
	<u>ORIGINAL</u>	<u>FINAL</u>		
OPERATING REVENUE				
Sales and charges for services	\$ 109,500	\$ 103,190	\$ 97,197	\$(5,993)
OPERATING EXPENSES				
Salaries and wages	270,850	272,970	272,963	7
Fringe Benefits	92,000	123,565	123,561	4
Contractual service	865,900	842,345	117,712	724,633
Supplies	33,500	33,240	32,357	883
Utilities	12,800	13,660	13,656	4
Insurance	15,625	11,100	11,098	2
Transportation & training	5,000	2,600	2,596	4
Advertising	3,000	2,445	2,441	4
Other	1,900	1,475	1,469	6
Depreciation	<u>4,000</u>	<u>1,175</u>	<u>167,912</u>	<u>(166,737)</u>
TOTAL OPERATING EXPENSES	<u>1,304,575</u>	<u>1,304,575</u>	<u>745,765</u>	<u>558,810</u>
OPERATING LOSS	(1,195,075)	(1,201,385)	(648,568)	552,817
NONOPERATING REVENUES				
Taxes	56,000	63,835	63,833	(2)
Intergovernmental:				
Federal	667,851	661,421	505,976	(155,445)
State	426,724	439,124	376,492	(62,632)
Local	22,500	21,525	21,524	(1)
Interest earnings	6,000	1,475	1,466	(9)
Sale of Equipment	<u>4,000</u>	<u>2,005</u>	<u>2,002</u>	<u>(3)</u>
TOTAL NONOPERATING REVENUES	<u>1,183,075</u>	<u>1,189,385</u>	<u>971,293</u>	<u>(218,092)</u>
NET INCOME (LOSS)	<u>\$(12,000)</u>	<u>\$(12,000)</u>	<u>\$ 322,725</u>	<u>\$ 334,725</u>

The Contractual and Professional variance shows that Capital Improvement Projects were completed and recorded as assets on the balance sheet instead of as an expense. The costs are budgeted and maintained on the Revenue and Expenditure report but in reality are capital items that ultimately are moved to the Balance Sheet. The variance on the State and Federal Revenues is also related to the capital projects. The Facility addition and the communication tower were started prior to this fiscal year and a small portion will extend into the June 30, 2005 fiscal year. The total capital project was shown on the budget, but the actual costs and corresponding revenues were less for this time period.

CITY OF IONIA DIAL-A-RIDE
MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL ASSETS

The acquisition of new busses is funded by (80%) Federal sources and (20%) State match from the Michigan Department of Transportation. This allows for the DAR to maintain its fleet at an average life of 5 (five) years. This funding source also allows for the DAR to use all of its operating revenues on daily services and not tie up those incomes with debt payments for equipment or the facility. During the fiscal year 2003-04, a new 18 passenger bus was acquired. In addition, a building expansion project was started before June 30, 2003. This was also funded through Federal/State capital projects revenue. Although there was \$524,811 in new capital assets the net increase was less. The difference in structures, vehicles, and equipment is reflective of recognizing plant asset disposals for obsolete equipment and depreciation expense.

TABLE 4
CAPITAL ASSETS

	<u>6/30/2004</u>	<u>6/30/2003</u>
Land	\$ 25,000	\$ 25,000
Buildings	992,946	613,167
Office Equipment	264,744	142,160
Vehicles	739,768	733,466
Construction in Progress	<u>0</u>	<u>21,207</u>
Sub-total	2,022,458	1,540,000
Less: Accumulated Depreciation	<u>(928,616)</u>	<u>(802,849)</u>
Net Property and Equipment	<u>\$ 1,093,842</u>	<u>\$ 737,151</u>

The DAR's five-year Capital Plan includes bus acquisition. A federal grant has been submitted to continue upgrades to the communication system that DAR uses within the county.

DEBT ADMINISTRATION

The DAR carries no long term debt as any improvements to the fleet or facilities have all been secured by state or federal grant projects. This allows the DAR to avoid any debt other than current liabilities in the normal operation of the system. The DAR does levy .75 mills to generate property tax revenue which is used in the operation of the system. The taxes collected are not obligated to any bond payments.

CITY OF IONIA DIAL-A-RIDE
MANAGEMENT DISCUSSION AND ANALYSIS

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

In setting the fiscal year budget for 2004-2005, many factors are considered by the DAR and the City Council. Many of the funds that subsidize the transportation operation are appropriated by both State and Federal legislation. These funds have remained consistent however fluctuations in future funding levels may be contributed to economic conditions at local, state, and the federal levels.

Approximately 18-20% of the operating revenue is collected through the fare box. Service standards are evaluated constantly, to make sure they match the commuter's needs. Fares have been increased or routes discontinued when it is necessary, or that the effectiveness is not being maximized.

TABLE 5
FARES HISTORY

	<u>Regular</u>	<u>Student</u>	<u>Senior/Disabled</u>
07/01/97 - 06/30/03	\$1.50	\$ 1.00	\$ 0.75
07/01/03 - current:	2.00	1.25	1.00

CONTACT INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of the DAR's finances and to demonstrate the DAR's accountability for the funds it receives. Anyone having questions regarding this report or desiring additional information may contact the City Finance Director or Director of Public Transportation, Ionia Area Dial-A-Ride, P.O. Box 496, Ionia, MI 48846, or phone (616) 527-5794 or by email at dirdialaride@city.ionia.mi.us.

FINANCIAL STATEMENTS

City of Ionia
DIAL-A-RIDE TRANSIT FUND
STATEMENTS OF NET ASSETS

June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 215,647	\$ 243,838
Accounts receivable	124	-
Taxes receivable	5,702	6,487
Due from fiduciary fund	198	3
Due from other governmental units - State	40,664	48,633
Prepaid expenses	<u>456</u>	<u>349</u>
Total current assets	262,791	299,310
Noncurrent assets		
Capital assets, net of accumulated depreciation	<u>1,093,842</u>	<u>737,151</u>
TOTAL ASSETS	1,356,633	1,036,461
LIABILITIES		
Current liabilities		
Accounts payable	20,875	17,988
Accrued liabilities	5,036	13,982
Deferred revenue	7,577	8,036
Current portion of accrued sick and vacation pay	<u>15,720</u>	<u>14,729</u>
Total current liabilities	49,208	54,735
Noncurrent liabilities		
Accrued sick and vacation pay	<u>47,161</u>	<u>44,187</u>
TOTAL LIABILITIES	<u>96,369</u>	<u>98,922</u>
NET ASSETS		
Invested in capital, net of related debt	1,093,842	737,151
Unrestricted	<u>166,422</u>	<u>200,388</u>
TOTAL NET ASSETS	<u><u>\$ 1,260,264</u></u>	<u><u>\$ 937,539</u></u>

See accompanying notes to financial statements.

City of Ionia
DIAL-A-RIDE TRANSIT FUND

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET ASSETS

Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
OPERATING REVENUES		
Sales and charges for services	\$ 97,197	\$ 102,099
OPERATING EXPENSES		
Administrative	89,240	177,179
Operations	415,957	480,173
Maintenance	52,748	35,142
Depreciation	167,913	-
State grants	19,907	90,264
TOTAL OPERATING EXPENSES	<u>745,765</u>	<u>782,758</u>
OPERATING LOSS	(648,568)	(680,659)
NONOPERATING REVENUES		
Taxes	63,833	60,799
Intergovernmental		
Federal sources	505,976	195,522
State sources	376,492	302,380
Local sources	21,524	18,600
Interest earnings	1,466	3,280
Gain on sale of equipment	2,002	2,538
Other revenues	-	1,000
TOTAL NONOPERATING REVENUES	<u>971,293</u>	<u>584,119</u>
NET INCOME (LOSS)	322,725	(96,540)
Net assets, beginning of year	<u>937,539</u>	<u>1,034,079</u>
Net assets, end of year	<u><u>\$1,260,264</u></u>	<u><u>\$ 937,539</u></u>

See accompanying notes to financial statements.

City of Ionia
DIAL-A-RIDE TRANSIT FUND

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 96,614	\$ 102,854
Payments to suppliers	(312,266)	(341,691)
Payments to employees	<u>(267,982)</u>	<u>(248,450)</u>
NET CASH USED BY OPERATING ACTIVITIES	(483,634)	(487,287)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Taxes	64,618	60,048
Intergovernmental sources	387,357	388,001
Other nonoperating revenues	<u>-</u>	<u>1,000</u>
NET CASH PROVIDED BY NONCAPITAL ACTIVITIES	451,975	449,049
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital purchases	(524,604)	(135,537)
Proceeds from sale of equipment	2,002	2,538
Capital grants	<u>524,604</u>	<u>122,169</u>
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	2,002	(10,830)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest revenue	<u>1,466</u>	<u>3,280</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS DURING YEAR	(28,191)	(45,788)
Cash and cash equivalents, beginning of year	<u>243,838</u>	<u>289,626</u>
Cash and cash equivalents, end of year	<u><u>\$ 215,647</u></u>	<u><u>\$ 243,838</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating (loss)	\$ (648,568)	\$ (680,659)
Adjustments to reconcile operating (loss) to net cash (used) by operating activities		
Depreciation	167,913	167,335
(Increase) in accounts receivable	(124)	-
(Increase) in due from fiduciary fund	(195)	(3)
(Increase) in prepaid expenses	(107)	(28)
Increase in accounts payable	2,887	331
Increase (decrease) in accrued liabilities	(4,981)	24,982
Increase (decrease) in deferred revenue	<u>(459)</u>	<u>755</u>
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (483,634)</u></u>	<u><u>\$ (487,287)</u></u>

See accompanying notes to financial statements.

City of Ionia
DIAL-A-RIDE TRANSIT FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Ionia Dial-A-Ride (DAR) was established to provide public transportation services to residents of the City of Ionia. The DAR also has a contract with the Ionia Area Transportation Authority (IATA) to provide public transportation services for residents of other municipalities located within Ionia County. The DAR administers grants and receives other funding on behalf of the Authority.

The DAR operation is funded primarily with Federal and State operating and capital grants along with user charges.

1. Reporting Entity

The accompanying financial statements are exclusive presentations of the financial condition and results of operations of the Dial-A-Ride Transit Fund. The DAR is considered a fund of the City of Ionia governmental operation. As a result, industry standards require the City to include the financial activities of the DAR in the City's Annual Financial Report. The Annual Financial Report of the City of Ionia is available for public inspection at the Ionia City Hall.

2. Basis of Presentation

The accounts of the DAR are organized on the basis of a fund which is considered a separate accounting entity. The operation of the fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses. DAR resources are allocated to and accounted for in the individual fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The fund in the financial statements in this report is described as follows:

PROPRIETARY FUND

Enterprise Fund - This fund is used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The DAR, as a fund of the City of Ionia, applies all GASB pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. The DAR, as a fund of the City of Ionia, has elected not to follow FASB pronouncements issued after November 30, 1989 to its business-type activities and enterprise fund.

3. Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Assets. Fund equity (i.e., total net assets) is segregated into invested in capital (net of related debt) and unrestricted components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

City of Ionia
DIAL-A-RIDE TRANSIT FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

4. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The proprietary funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and the expenses are recognized when they are incurred, regardless of the timing of related cash flows.

5. Budgets and Budgetary Accounting

The DAR, as a fund of the City of Ionia, employs the same budgeting procedures as the City of Ionia, which is described in Note A within the City's Annual Financial Report.

6. Cash and Cash Equivalents

Cash equivalents consist of the DAR portion of the City of Ionia's pooled cash accounts. These pooled accounts consist of various checking, savings, certificates of deposit, and investment trust funds.

7. Capital Assets and Long-Term Liabilities

Capital assets, which include buildings, vehicles, and equipment, are capitalized at total acquisition cost, provided such cost exceeds \$1,000 and the expected useful life of the asset is more than one year. Depreciation is recorded on all depreciable capital assets on a straight-line basis over the estimated useful lives of the assets.

The estimated useful lives are:

Buildings	30 years
Vehicles	5 years
Furniture and Equipment	3 - 7 years

Long-term liabilities are recognized in the basic financial statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

8. Accrued Vacation and Sick Leave

DAR employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is paid for certain portions of unused accumulated vacation and sick time. This amount has been recorded as a current and long-term liability in the Proprietary Fund.

9. Cost Allocations

The DAR allocates expenses between various program activities (i.e., City, Authority) for grant reporting purposes. The allocations are prepared based on a cost allocation plan and methodology that has been approved by the grantor agency (i.e., vehicle hours per program activity).

City of Ionia
DIAL-A-RIDE TRANSIT FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

10. Comparative Data

Comparative data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the financial position, operations, and cash flows. Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation.

NOTE B: CASH AND CASH EQUIVALENTS

In accordance with Michigan Compiled Laws, the DAR is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belonging to the State under section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers' acceptances of United States banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

A portion of the cash and cash equivalents of the DAR are covered by Federal deposit insurance along with other deposits of the City of Ionia, limited to \$100,000 in total deposits for each bank customer. Since the City maintains these funds in pooled accounts it is not practical to determine what portion of the DAR funds are insured.

City of Ionia
DIAL-A-RIDE TRANSIT FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE C: CAPITAL ASSETS

Proprietary Fund capital asset activity for the year ended June 30, 2004, was as follows:

	Balance <u>July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2004</u>
Business-type activities:				
Land	\$ 25,000	\$ -	\$ -	\$ 25,000
Construction in progress	21,207	-	(21,207)	-0-
Buildings	613,167	379,779	-	992,946
Vehicles	738,466	43,448	(42,146)	739,768
Furniture and equipment	<u>142,160</u>	<u>122,584</u>	<u>-</u>	<u>264,744</u>
Totals at historical cost	1,540,000	545,811	(63,353)	2,022,458
Less accumulated depreciation for:				
Buildings	(269,577)	(26,778)	-	(296,355)
Vehicles	(398,570)	(127,247)	42,146	(483,671)
Furniture and equipment	<u>(134,702)</u>	<u>(13,888)</u>	<u>-</u>	<u>(148,590)</u>
Total accumulated depreciation	<u>(802,849)</u>	<u>(167,913)</u>	<u>42,146</u>	<u>(928,616)</u>
Capital assets, net	<u>\$ 737,151</u>	<u>\$ 377,898</u>	<u>\$ (21,207)</u>	<u>\$ 1,093,842</u>

A summary of Proprietary Fund capital assets by funding source at June 30, 2004, follows:

	Purchased with <u>DAR Local Operating Funds</u>	Purchased with Funds Contributed by <u>City of Ionia</u>	Purchased with <u>Capital Grants</u>	<u>Total</u>
Land	\$ -	\$ 25,000	\$ -	\$ 25,000
Buildings	41,254	-	951,692	992,946
Vehicles	4,077	-	735,691	739,768
Furniture and equipment	<u>12,800</u>	<u>-</u>	<u>251,944</u>	<u>264,744</u>
Total	58,131	25,000	1,939,327	2,022,458
Less: accumulated depreciation	<u>(17,003)</u>	<u>-</u>	<u>(911,613)</u>	<u>(928,616)</u>
Capital assets, net	<u>\$ 41,128</u>	<u>\$ 25,000</u>	<u>\$ 1,027,714</u>	<u>\$ 1,093,842</u>

When Federal or State funded assets are withdrawn from public transportation service, the disposition of the assets is to be approved by the Michigan Department of Transportation (MDOT). During the year, the DAR disposed of one (1) vehicle that was Federally or State funded with a historical cost of \$42,146, which was fully depreciated. Depreciation expense in the amount of \$167,913 was reported for year ended June 30, 2004.

NOTE D: RETIREMENT PLAN

All full-time employees of the DAR are eligible and participate in the City of Ionia retirement plan. The required disclosures are included in the note captioned "Retirement Plan" within the City's Annual Financial Report.

City of Ionia
DIAL-A-RIDE TRANSIT FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE E: RISK MANAGEMENT

The DAR, as a fund of the City of Ionia, is protected from losses as described in the note captioned "Risk Management" within the City's Annual Financial Report.

OTHER SUPPLEMENTARY INFORMATION

City of Ionia
DIAL-A-RIDE TRANSIT FUND

SCHEDULE OF OPERATING REVENUES

Year Ended June 30, 2004

	<u>7/1/03 to 9/30/03</u>	<u>10/1/03 to 6/30/04</u>	<u>Total</u>
Operating revenues			
Demand response (farebox)	\$ 14,166	\$ 47,548	\$ 61,714
School services (farebox)	<u>5,373</u>	<u>30,110</u>	<u>35,483</u>
	<u>\$ 19,539</u>	<u>\$ 77,658</u>	<u>\$ 97,197</u>

City of Ionia
DIAL-A-RIDE TRANSIT FUND

SCHEDULE OF OPERATING EXPENSES

Year Ended June 30, 2004

	<u>Operations</u>	<u>Maintenance</u>	<u>Administrative</u>	<u>Total System</u>
Labor				
Operator's salaries and wages	\$ 213,840	\$ -	\$ -	\$ 213,840
Other salaries and wages	-	11,648	11,322	22,970
Dispatchers' salaries and wages	34,359	874	920	36,153
Payroll taxes and fringe benefits	114,382	4,307	4,872	123,561
Professional services	18,464	23,371	51,015	92,850
Materials and supplies consumed				
Operation and maintenance	21,357	7,261	-	28,618
Office supplies	1,074	1,862	713	3,649
Utilities	-	-	12,427	12,427
Insurance	11,098	-	1,228	12,326
Miscellaneous expenses				
Advertising and promotion	(1,429)	3,425	5,467	7,463
Other miscellaneous	685	-	1,241	1,926
COA grant	-	-	19,907	19,907
Training	2,127	-	35	2,162
Depreciation	-	-	167,913	167,913
TOTAL OPERATING EXPENSES	<u><u>\$ 415,957</u></u>	<u><u>\$ 52,748</u></u>	<u><u>\$ 277,060</u></u>	<u><u>\$ 745,765</u></u>

City of Ionia
DIAL-A-RIDE TRANSIT FUND

SCHEDULE OF NONOPERATING REVENUES - LOCAL

Year Ended June 30, 2004

	<u>7/1/03 to 9/30/03</u>	<u>10/1/03 to 6/30/04</u>	<u>Total</u>
Local operating grant - tax levy	\$ 54,421	\$ 9,412	\$ 63,833
Township participation	4,650	16,874	21,524
Interest income	684	782	1,466
Sale of equipment	<u>-</u>	<u>2,002</u>	<u>2,002</u>
TOTAL NONOPERATING REVENUES - LOCAL	<u>\$ 59,755</u>	<u>\$ 29,070</u>	<u>\$ 88,825</u>

City of Ionia
DIAL-A-RIDE TRANSIT FUND

SCHEDULE OF NONOPERATING REVENUES - STATE AND FEDERAL

Year Ended June 30, 2004

State of Michigan Operating Grants	
Local Bus Operating Assistance (Act 51)	\$ 133,023
Ionia County Commission on Aging	19,907
Job Access - Service expansion	40,507
Ionia Area Transit Authority (Act 51)	<u>78,134</u>
Total State of Michigan Operating Grants	271,571
State of Michigan Capital Grants	
Section 5309	96,232
Section 5311	<u>8,689</u>
Total State of Michigan Capital Grants	104,921
Federal Operating Grants	
Rural Transit Authority Program	1,989
Job Access - Service expansion	40,508
U.S. Department of Transportation - Section 5311	<u>43,796</u>
Total Federal Operating Grants	86,293
Federal Capital Grants	
U.S. Department of Transportation - Section 5309	384,925
U.S. Department of Transportation - Section 5311	<u>34,758</u>
Total Federal Capital Grants	<u>419,683</u>
TOTAL NONOPERATING REVENUES - STATE AND FEDERAL	<u><u>\$ 882,468</u></u>

City of Ionia
DIAL-A-RIDE TRANSIT FUND

SCHEDULE OF EXPENSES BY CONTRACT AND GENERAL OPERATIONS

Year Ended June 30, 2004

	IATA ⁽¹⁾ <u>Operations</u>	City <u>Operations</u>	Report <u>Totals</u>
Labor	\$ 88,468	\$ 166,096	\$ 254,564
Fringe benefits	43,246	78,522	121,768
Professional services	17,033	41,811	58,844
Audit costs	1,081	1,219	2,300
Materials and supplies	8,187	15,115	23,302
Utilities	3,551	8,876	12,427
Insurance	5,112	7,214	12,326
Travel and meetings	235	1,892	2,127
Miscellaneous	5,912	3,512	9,424
COA grant	-	19,907	19,907
Depreciation	<u>-</u>	<u>167,913</u>	<u>167,913</u>
Total	172,825	512,077	684,902
Less ineligible expenses	<u>-</u>	<u>(182,345)</u>	<u>(182,345)</u>
NET ELIGIBLE	<u><u>\$ 172,825</u></u>	<u><u>\$ 329,732</u></u>	<u><u>\$ 502,557</u></u>
Breakdown by period			
7/1/03 through 9/30/03	\$ 40,294	\$ 75,926	\$ 116,220
10/1/03 through 6/30/04	<u>132,531</u>	<u>253,806</u>	<u>386,337</u>
	<u><u>\$ 172,825</u></u>	<u><u>\$ 329,732</u></u>	<u><u>\$ 502,557</u></u>

⁽¹⁾ The City has a third-party contract with the Michigan Department of Transportation to provide services on behalf of the Ionia County Transit Authority (IATA). A percentage of total Dial-A-Ride expenses has been allocated to this program and is reimbursed separately. These expenses are not included in the regular formula for reimbursement. Also, the expenses related to the Job Access grants are accounted for, reported and reimbursed separately.

City of Ionia
DIAL-A-RIDE TRANSIT FUND

NET ELIGIBLE COST COMPUTATIONS OF GENERAL OPERATIONS

Year Ended June 30, 2004

	Federal Section 5311			
	City		Authority	
	2002-0050/Z5	2002-0050/Z9	2002-0051/Z4	2002-0051/Z6
	7/1/03 to 9/30/03	10/1/03 to 6/30/04	7/1/03 to 9/30/03	10/1/03 to 6/30/04
Expenses				
Labor	\$ 44,124	\$ 121,972	\$ 23,758	\$ 64,710
Fringe benefits	19,366	59,156	10,427	32,819
Professional services	7,090	34,721	-	17,033
Audit costs	-	1,219	-	1,081
Materials and supplies	3,024	12,091	1,628	6,559
Utilities	1,142	7,734	615	2,936
Insurance	-	7,214	-	5,112
Travel and meetings	836	1,056	32	203
Miscellaneous	826	2,686	3,834	2,078
Expense transfers				
COA grant	4,975	14,932	-	-
Depreciation	37,209	130,704	-	-
Total expenses	118,592	393,485	40,294	132,531
Less ineligible expenses ⁽¹⁾				
Depreciation	(36,915)	(123,534)	-	-
Specialized Service Operating				
Assistance Agreements -				
2002-0050/Z1	(4,975)	-	-	-
2002-0050/Z4	-	(14,932)	-	-
Rural Transit Assistance Program	(776)	(1,213)	-	-
Total ineligible expenses	(42,666)	(139,679)	-0-	-0-
NET EXPENSES	<u>\$ 75,926</u>	<u>\$ 253,806</u>	<u>\$ 40,294</u>	<u>\$ 132,531</u>
Less: Section 5311 reimbursements				
Net deficit eligible for State operating assistance reimbursement				
Maximum Section 5311 reimbursement (10.95%)	<u>\$ 8,314</u>		<u>\$ 4,412</u>	
(10.95%)		<u>\$ 27,792</u>		<u>\$ 14,512</u>
Maximum State operating assistance (42.236619648%)				
(42.93218922%)				

⁽¹⁾ The City had expended more than \$300,000 in federal funds and was therefore subject to a single audit for the fiscal year ended June 30, 2003. As a result, the related audit costs were not deducted as an ineligible expense.

State Operating Assistance				Job Access	
City		Authority		City	
2002-0050/Z5 7/1/03 to 9/30/03	2002-0050/Z9 10/1/03 to 6/30/04	2002-0051/Z4 7/1/03 to 9/30/03	2002-0051/Z6 10/1/03 to 6/30/04	2001-0444/A1 7/1/03 to 9/30/03	2001-0444/A2 10/1/03 to 6/30/04
\$ 44,124	\$ 121,972	\$ 23,758	\$ 64,710	\$ 6,464	\$ 13,729
19,366	59,156	10,427	32,819	-	-
7,090	34,721	-	17,033	6,624	25,082
-	1,219	-	1,081	-	-
3,024	12,091	1,628	6,559	2,672	6,292
1,142	7,734	615	2,936	-	-
-	7,214	-	5,112	-	-
836	1,056	32	203	-	-
826	2,686	3,834	2,078	-	-
4,975	14,932	-	-	-	-
37,209	130,704	-	-	-	-
118,592	393,485	40,294	132,531	15,760	45,103
(36,915)	(123,534)	-	-	-	-
(4,975)	-	-	-	-	-
-	(14,932)	-	-	-	-
(776)	(1,213)	-	-	-	-
(42,666)	(139,679)	-0-	-0-	-0-	-0-
75,926	253,806	40,294	132,531	<u>\$ 15,760</u>	<u>\$ 45,103</u>
-	(26,914)	-	(16,882)		
<u>\$ 75,926</u>	<u>\$ 226,892</u>	<u>\$ 40,294</u>	<u>\$ 115,649</u>		
<u>\$ 32,069</u>	<u>\$ 97,410</u>	<u>\$ 17,019</u>	<u>\$ 49,651</u>		

City of Ionia
DIAL-A-RIDE TRANSIT FUND

SCHEDULE OF MILEAGE DATA (UNAUDITED)

Year Ended June 30, 2004

	Public Transportation Mileage ⁽¹⁾
Demand response	
First quarter	33,844
Second quarter	40,298
Third quarter	46,605
Fourth quarter	<u>35,033</u>
Total operation	<u><u>155,780</u></u>

⁽¹⁾ The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

City of Ionia
DIAL-A-RIDE TRANSIT FUND

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended June 30, 2004

<u>Federal and State Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Restated Program Award Amount</u>	<u>Expenses</u>
FEDERAL				
<u>U.S. Department of Transportation</u>				
Passed through MDOT				
Federal Transit - Capital Investment Grants	20.500			
City Capital Grant - Section 5309		2002-0050/Z3	\$ 237,568	\$ 172,186
City Capital Grant - Section 5309		2002-0050/Z7	299,038	212,739
			<u>536,606</u>	<u>384,925</u>
 Operating Assistance - Section 5311	 20.509			
City FY03-04		2002-0050/Z9	26,914	26,914
Authority FY03-04		2002-0051/Z6	16,882	16,882
Capital Grant - Section 5311				
Authority FY03-04		2002-0051/Z5	36,000	34,758
Rural Transit Assistance Program		N/A	1,989	1,989
			<u>81,785</u>	<u>80,543</u>
 Jobs Access and Reverse Commute Grant - Section 3037	 20.516			
City FY02-03		2001-0444/A1	81,570	10,076
City FY03-04		2001-0444/A2	81,570	30,432
			<u>163,140</u>	<u>40,508</u>
 TOTAL FEDERAL AWARDS			 781,531	 505,976

City of Ionia
DIAL-A-RIDE TRANSIT FUND

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS - CONTINUED

Year Ended June 30, 2004

<u>Federal and State Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Restated Program Award Amount</u>	<u>Expenses</u>
STATE				
<u>Michigan Department of Transportation</u>				
Operating Assistance - Act 51	N/A			
Prior years		N/A	\$ (1,190)	\$ (1,190)
City				
FY02-03		N/A	33,005	33,005
FY03-04		N/A	103,428	103,428
Authority				
FY02-03		N/A	18,980	18,980
FY03-04		N/A	<u>56,934</u>	<u>56,934</u>
			211,157	211,157
Specialized Service Operating Assistance	N/A			
FY02-03		2002-0050/Z4	19,912	4,975
FY03-04		2002-0051/Z8	<u>19,908</u>	<u>14,932</u>
			39,820	19,907
Jobs Access and Reverse Commute				
Grant - Section 3037	N/A			
City FY02-03		2001-0444/A1	81,570	10,076
City FY03-04		2001-0444/A2	<u>81,570</u>	<u>30,431</u>
			163,140	40,507
Capital Grant - Section 5309	N/A			
City				
FY03-04		2002-0050/Z3	59,392	43,047
FY03-04		2002-0050/Z7	<u>74,759</u>	<u>53,185</u>
			134,151	96,232
Capital Grant - Section 5311	N/A			
Authority				
FY03-04		2002-0051/Z5	<u>9,000</u>	<u>8,689</u>
TOTAL STATE AWARDS			<u>557,268</u>	<u>376,492</u>
TOTAL FEDERAL AND STATE AWARDS			<u>\$ 1,338,799</u>	<u>\$ 882,468</u>